Etherstack plc AND CONTROLLED ENTITIES (formerly MM&S (5698) plc)

COMPANY REGISTRATION NUMBER 7951056

ARBN 156 640 532

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

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Corporate Directory

Company Registration No. 7951056

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Directors
Peter Stephens (Non-Executive Chairman)
David Deacon (Executive Director and Group Chief Executive Officer)
Paul Barnes FCCA (Non-Executive Director)
Scott W. Minehane (Non-Executive Director)

Company Secretaries
Paul Barnes FCCA (United Kingdom)
David Carter (Australia)

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The Pavilions, Bridgwater Road
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www.etherstack.com

Strategic Report

On behalf of the Board of Directors, I am very pleased to present this Strategic Report of the activities of Etherstack plc for 2013.

Principal Activities

The principal activities of the Group throughout the year were design, development and deployment of wireless communications software and products. The principal activity of Etherstack plc (the "Company") is that of a holding company.

Etherstack specialises in wireless technology. Specifically, Etherstack develops software for use in transceivers which enable the transceiver to communicate with a radio network and other transceivers.

Etherstack licenses its software and designs to companies who manufacture telecommunication equipment primarily for government public safety agencies and utilities.

Etherstack derives its primary revenues in the following manner:

- technology access licenses, which are lump sum payments, payable at the commencement and at defined stages of a contract;
- royalties which are periodic payments payable over the life of a contract;
- from "white labelled" equipment sales to original equipment manufacturers (where Etherstack sells its products to a customer with no Etherstack branding and the customer puts its own brand on it and sells it under its own brand);
- manufactured equipment sales, such as the sale of specialist government radio equipment;
- system solution sales, where Etherstack sells its products and software and then provides ongoing support systems; and
- service fees for specific services provided by Etherstack to its customers,
  and to a lesser extent, revenues from:

- bespoke wireless technology design services, being the customisation of existing intellectual property or specific client applications; and
- ongoing warranty and support services provided to the customer.

Etherstack has a substantial intellectual property portfolio that generates a diverse range of revenue from multiple technology areas and clients, and a mix of mature, new and emerging product lines.

Review of 2013

Revenues

2013 has been a difficult year for the Group with a revenue decrease from USD $7,051,000 in 2012 to $USD 5,200,000 in 2013. The 3 key reasons for the decrease are:

1. Reduced revenues from the US market – Public Safety Communications spending in the US market in 2013 has been below levels of recent years and, compounding this decline, was sequestration of US Government spending in parts of 2013. Almost all participants in this sector have been impacted;

2. An unexpected 10 month delay on commencement of a major multiyear project during 2013, which only commenced in October 2013, and is now providing expected revenues in 2014; and

3. A significant multimillion dollar repeat order expected from an established US defence client did not materialise due to events outside of the Group's control.

As expected, revenue for the second half of the year of USD $3,415,000 exceeded revenue for the first half of USD $1,785,000.

The inherent nature of Etherstack revenues means that the timing of the completion or commencement of individually significant projects can cause a significant variation in the revenue pattern. Unusually, in 2012 and 2013, the Group has not gained benefits of any of the large contracts which underpinned the 2010 and 2011 revenues.

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As a result and as previously reported, the company has been transitioning dependence from a smaller number of large value contracts to a more consistent sales pipeline mix through the development and introduction of new specialist radio products sold under its own brands to complement the technology licensing and major projects businesses.

Revenue Outlook

Despite the challenges of the past 12 months, the Group has continued to expand its client base and diversify its revenue base.

Etherstack recently received its first order from an Australian federal policing agency for its new tactical communications products, the first of which will be delivered in March this year. This follows on from initial lead orders with US federal agencies.

The commencement of further stages of the Group's largest network contract has provided stronger revenue at the start of the current financial year, and it is expected that the first *quarter* FY14 revenues will exceed the first *half* revenues of FY13.

Expected completion of a significant royalty bearing contract next month will see a further new royalty stream opening up from a high volume Japanese producer of radio equipment.

Cost reductions

As revenues declined in 2013 a number of cost reduction activities were undertaken. In particular, the Group has reduced the total number of staff saving USD$1.3 million on an annualised basis. This has been achieved through a combination of natural attrition and retrenchments. In addition, the Group is in the process of reducing other costs.

Cost reductions are managed with a view to balancing the short term need to reduce costs and conserve cash with the medium and longer term need to develop intellectual property assets which produce future revenues.

Intellectual property developments

The Group continues to invest significantly in intellectual property assets and in the financial year Etherstack capitalised further costs of USD $3.414m on developing its portfolio of intellectual property assets.

The company expects to generate valuable future royalty streams from the new intellectual property from both existing technology licensee clients and new licensees under negotiation.

Major contracts

Major contracts running or completed in 2013 include:

1. A technology integration project with a major Japanese radio equipment manufacturer was started in December 2012 and successfully completed in March 2014, with new royalties expected to be generated in Q2 2014.

2. A new technology licensing agreement with another Japanese manufacturer for $1m

3. Late in 2012 the group completed the first stage of a project to deliver a digital radio network for a customer in Queensland which is expected to ultimately cover a service area in excess of 1 million square kilometres. The second stage of this project commenced in late 2013 and will progress into 2014 and 2015.

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Legal action

Etherstack's US subsidiary has become involved in a legal action initiated by one of the Group's technology licencees, Datron World Communications, Inc. While the outcome of the action is uncertain (and if litigated would not be known until 2015 at the earliest), the Directors have taken a prudent approach in presenting the 31 December 2013 financial statements providing in full against amounts receivable from Datron and provided in full against accrued income on the contract. The combined provision results in a profit & loss charge of USD $499,000. The Group will continue to attempt to recover through legal avenues unpaid milestones and unpaid royalties on product sold and shipped by Datron containing the Group's technology.

Our Staff

A special thank you to all the Etherstack team across the globe for maintaining their focus on customers and innovation, allowing us to continue delivering cutting edge solutions and setting the technological benchmark for our industry. Our clients' products are "powered by Etherstack" and Etherstack is powered by the talent of its employees.

Key Performance indicators

The primary performance indicator for the Group continues to be revenue. Current period consolidated revenue totalled $5,200,000 compared to $7,051,000 in 2012.

The three key reasons revenue has declined have been outlined above

The second key performance indicator is royalty revenue. Royalty revenue for 2013 was $518,000 which is a 31% decrease on 2012 royalty revenues however a number of our products have reached the point that royalty streams will increase and the expectation is that royalty income for 2014 will be significantly greater than 2013 as a result of the commercial maturity of a number of our products. In addition the comments underlying the 2013 revenue decline have also acted to reduce 2013 royalty revenue streams.

The third key performance indicator for the Group is the investment in the development of intellectual property assets. In the current year the Group invested $3,414,000 (2012 $4,559,000) on developing our suite of intellectual property assets. This is a decrease as the company has reduced the investment in long term intellectual property projects in order to redirect engineering efforts to revenue generating projects and as a result of reductions in staffing levels.

The objective for the coming year ahead is to further commercialise our product base and to add to revenues from those products recently introduced into the market. Our product development pipeline remains strong and we have been developing new Intellectual Property.

Convertible Note Issue

In January 2013 the Company completed a Convertible note funding round, raising of AUD$3,000,000 before issue costs (USD$3,111,000 at the exchange rates prevailing at the time the cash was received). AUD$1,520,000 (USD$1,547,000) before issue costs was received in December 2012. These funds will be used to provide additional working capital for the Group.

Risks

The management of the business and the execution of the Group's strategy expose it to a number of risks. These risks are formally reviewed by the Board and appropriate processes are put in place to monitor and mitigate them.

Key business risks affecting the Group are set out below.

- ***Dependence on key contracts***

Etherstack is dependent on a number of key contracts.

Growing the total revenue of the Group will reduce the significance of individual contracts or projects relative to the Groups total revenue. In addition, growth of royalty revenues streams stemming from

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products reaching commercial maturity reduces dependence on individual contracts. However the impact of individually significant contracts remains in existence at the balance sheet date.

- ***Technology risk***

Etherstack relies on its ability to develop and further commercialise the technologies and products of the Company. Etherstack's operations include the design and delivery of products for secure communication, homeland security, defence and aerospace related markets. This is a fast moving industry and there can be no assurance that future products and systems introduced into the market by the Group will be profitable and cash generative.

To manage this risk, Etherstack closely monitors the markets for our products and is a member of industry associations and Standards Committees. Successfully managing this technology risk and identifying product innovations is a key part of Etherstack operations and receives the appropriate resources to manage the risks.

- ***Intellectual property and know-how risk***

Securing rights to the intellectual property and the know-how behind the technologies is an integral part of the value of Etherstack's products. Etherstack ensures legal protection of our intellectual property is included in all customer and employee contracts and ensures that IT controls are in place to control access to sensitive intellectual property and associated documentation and information,

- ***Economic and exchange rate risk***

The Group operates in five different countries/regions each using their own currency. The Group's presentational currency is US$, as a result, Etherstack is subject to currency and foreign exchange pricing swings, which may have a positive or negative effect on the performance of the Group. General economic conditions, movements in interest and inflation rates may have an adverse effect on the Group's activities, as well as on its ability to fund those activities. The Group has natural hedges which reduce the exposure to currency fluctuations and from time to time enters forward rate agreements in the event that additional currency protection is considered necessary. Further information on these risks is set out in the Note 21 to the financial statements.

- ***Product liability and uninsurable risk***

The Group is exposed to potential product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products and technologies. The Group has secured insurance to help manage such risks.

- ***Liquidity risk***

The Group aims to mitigate liquidity risk by managing cash generation by its operations, and applying cash collection targets throughout the Group. Investment is carefully controlled, with authorisation limits operating up to Group board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate appropriate levels of working capital and when necessary to facilitate fund raising activities.

David Deacon
Group Chief Executive Officer

Directors and Key Management

Board of Directors

Peter Stephens – Non-Executive Chairman

Peter was previously head of European Equities Sales at both Salomon Brothers and Credit Lyonnais and since 2001 he has been working as a venture capitalist. He is Chairman and Chief Investment Officer of Cavendish Ware Limited, an IFA and fund manager

Peter has dealt with and advised many of the leading investment managers in the UK over the past 20 years. He is a founding shareholder of Desire Petroleum plc and is a Non-Executive Director of Tristel plc and GeTech Group plc, both companies are quoted on the London Stock Exchange's AIM market. He is a director and major shareholder in five other UK ventures including Scott Dunn and Cavendish Ware.

Peter has an M.A. in Jurisprudence from Oxford University and qualified as a barrister in the UK in 1978.

Peter has been on the board of Etherstack London Limited since September 2007 and was appointed to the Board of Etherstack plc in 2012 as Non-Executive chairman of the Board and chairman of the Remuneration Committee and Nomination Committee.

Paul Barnes, FCCA – Non-Executive Director

Paul has wide experience in venture development, financial strategy and management, corporate finance and M&A disciplines.

Paul started his career with the City of London accounting firm Melman Pryke & Co (now part of Grant Thornton). Following qualification, he then worked in both accountancy practice and commerce, specialising in developing businesses in a wide range of activities from auditing development and commercial property companies and commodities brokers to taking senior management positions with a successful importer and a full service executive jet aviation company.

Paul co-founded and raised funds for various successful "start up" businesses in both property and telecommunication sectors including UK Telecom plc.

Paul has been a key member of the teams in the development and admission to the London Stock Exchange's AIM market of both Tristel plc and Oxford Catalysts plc raising substantial funds for both companies, where he served as the Executive Finance Director and in the establishment of Beach Street Financial Solutions Limited an FSA regulated investment management firm.

Paul is a Fellow of the Association of Chartered Certified Accountants, a registered auditor in the UK and a member of the UK's Chartered Institute for Securities and Investment.

Paul joined Etherstack in 2002 as Finance Director and CFO, and held these positions throughout the development and expansion of Etherstack until December 2011. Paul was appointed a Director of Etherstack plc in February 2012.

Scott Minehane – Non-Executive Director

Scott is an international regulatory and strategy expert in the telecommunications sector and has been involved in advising investors, operators, Governments and regulators in Australia, Asia, the Pacific and South Africa. His expertise extends to spectrum management and new generation fixed and mobile technologies including 4G.

Scott has a separate consultancy practice, through which he has advised a range of leading corporates and organisations including the Commonwealth, South Australian and Victorian Governments, APEC Business Advisory Council, NBNCo, Macquarie Group, World Bank, International Telecommunications Union (ITU), Competitive Carriers Coalition ('CCC'), Leighton Holdings, Macquarie Telecommunications, IDA Singapore, National Broadcasting and Telecommunications Commission (Thailand), TRA (UAE), Telekom Malaysia, Axiata Group, Telkom South Africa and Telecom NZ.

Directors and Key Management

Scott has a Bachelor of Economics and a Bachelor of Laws from the University of Queensland and holds a Master of Laws specialising in Communications and Asian Law from the University of Melbourne.

Scott joined the Board as an Independent Non-Executive Director in 2012 and is chairman of the Audit & Risk Management Committee.

David Deacon – Group CEO, Executive Director

David has almost 20 years' experience in the wireless communications industry. Prior to Etherstack, David founded and ran an Australian wireless technology company, Indian Pacific Communications Pty Ltd, for six years until it was sold to a public company in April 2000. Before this, David led software development teams involved in wireless research and development in Perth and Sydney.

David founded Etherstack in 2002 and has been Chief Executive Officer since that date. In this time, David has overseen Etherstack's growth into operations in seven countries around the world and the development of industry leading wireless communications technology assets.

Senior management

Brad Dolphin – Chief Operating Officer

Brad is the CEO of Auria Wireless and Chief Operating Officer of Etherstack. Prior to joining Auria Wireless as its CEO, Brad was the Managing Director of C10 Communications Pty Ltd, a subsidiary of Lemarne Corporation for over six years. Brad also joined Cable and Wireless Optus as Manager of New Access Technologies where he was responsible for the introduction of DSL technology into Optus and, in the position of Chief Technical Officer of XYZed, built the network and operations unit of this business.

Brad graduated from the University of Western Australia with a Bachelor of Engineering degree with a double major in Communications and Electronics. As a design engineer, Brad's career includes the development of HF and VHF commercial radio transceivers and base stations as well as time in the defence industry in the UK.

Brad's role as Chief Operating Officer was varied with from 1 November 2013 when his role became project oriented in particular in connection with the deployment of the digital radio network for a customer in Queensland, Australia covering a service area of 1.7 million square kilometres.

David Carter – Chief Financial Officer

David worked within the audit and assurance practice of Coopers & Lybrand and PricewaterhouseCoopers for 12 years in Australia and The Netherlands.

David has held senior finance roles in IT companies including Dimension Data and Computer Science Corporation and was CFO and company secretary of a software reseller and engineering services provider before joining Etherstack as CFO in September 2011.

David has a Bachelor of Commerce degree from University of New South Wales, is a member of the Institute of Chartered Accountants in Australia, and holds an Executive MBA from the Australian Graduate School of Management.

Corporate Governance Report

At 31 December 2013

The Board of Directors is responsible for the overall strategy, governance and performance of the Etherstack plc group of companies (the Group). Etherstack plc (the Company) is a wireless communications technology provider whose strategy is to add substantial shareholder value through the design, development and deployment of products for radio communication networks used by governments, such as those used by defence and police forces, public safety departments, such as ambulance and fire, and radio networks used by utilities, such as electricity companies. The Board has adopted a corporate governance framework which it considers to be suitable given the size, history and strategy of the Company.

Principles of best practice recommendations

In accordance with ASX Listing Rules, Etherstack plc is required to disclose the extent to which it has followed ASX's Corporate Governance Principles and Recommendations (ASX Recommendations) during the financial year. Where the Company has not followed an ASX Recommendation, this has been identified and an explanation for the departure has been given.

Further details relating to the Company's corporate governance practices can be found on the Company's website at www.etherstack.com in the "Investor" section under "Corporate Governance".

Principle 1: Lay solid foundations for management and oversight

The Board of Directors is responsible for the overall strategy, governance and performance of the Company.

Board Charter

The Board has adopted a formal Board Charter which clearly details its functions and responsibilities and delineates the role of the Board from that of the senior executives. The Board's function and responsibilities include strategy and planning, corporate governance, appointment of the Chief Executive Officer (CEO), remuneration, capital expenditure and financial reporting, performance monitoring, risk management, audit and compliance, developing and monitoring diversity policies and objectives.

Executive Directors are provided with executive contracts of employment and Non-Executive Directors are provided with service agreements setting out the key terms and conditions relative to that appointment.

The process for performance reviews of senior executives and the Board is set out in this report. The first review of performance of senior executives under this process was in 2013.

The Board Charter is available on the website in the "Investor" section under "Corporate Governance".

Principle 2: Structure the board to add value

Structure of the Board

The Board currently consists of four directors comprising, an Independent Chairman, two Non-Executive Directors and one Executive Director:

Mr Peter Stephens, Chair – Independent, Non-Executive Director

Mr Paul Barnes – Non-Executive Director

Mr Scott Minehane – Independent, Non-Executive Director

Mr David Deacon – Group CEO and Executive Director

The term of office held by each Director is set out on page 19.

The skills, experience and expertise of each Director are set out on pages 7 and 8.

Corporate Governance Report

At 31 December 2013

Chairman's responsibilities and independence

The Board Charter provides that the Chairman of the Board is responsible for the leadership of the Board, ensuring the Board is effective, setting the agenda of the Board, conducting Board meetings and conducting shareholder meetings.

The Chairman of the Board, Peter Stephens, is an Independent Non-Executive Director.

Board independence

An independent Director, in the opinion of the Board, must be independent of management and have no business or other relationship that could materially interfere with – or could reasonably be perceived materially to interfere with – the independent exercise of that director's judgement. Any independent Director will meet the definition of what constitutes independence as set out in the ASX Recommendations. The materiality thresholds are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

At this time, there are two Directors the Board has classified as independent - the Non-Executive Chairman Mr Peter Stephens, and Mr Scott Minehane.

The Board Charter states that the Board aims to have at all times a Board of directors with at least two independent Non-Executive Directors and having the appropriate mix of skills, experience, expertise and diversity relevant to the Company's businesses and the Board's responsibilities.

Board committees

To assist the Board in carrying out its functions, the Board has established:

- an Audit and Risk Management Committee (see page 13);
- a Remuneration Committee (see page 15); and
- a Nomination Committee.

Each Committee is established according to a Charter that is approved by the Board. Each Committee is entitled to the resources and information it requires to discharge its responsibilities, including direct access to senior executives, employees and advisers as needed. Terms of reference of each committee, explaining its role and the authority delegated to it by the Board, are available on the Company's website. The committee chairmen report regularly to the whole board and are required to confirm that the committees have sufficient resources to undertake their duties.

Nomination Committee

The Nomination Committee must have a majority of independent Directors. The chair of the Board shall chair the Nomination committee. Peter Stephens, Scott Minehane, and David Deacon are members of this committee. Peter Stephens acts as chairman of the committee. When appointing members of each committee, the Board shall take account of the skills and experience appropriate for that committee as well as any statutory or regulatory requirements. The nomination related responsibilities of the committee include reviewing Non-Executive Director remuneration, assessing the skills, diversity and necessary industry, technical or functional experience required by the Board, recommending directors for re-election and conducting searches for new Board members when required.

Director selection process and Board renewal

The composition of the Board is reviewed regularly to ensure the appropriate mix of skills, diversity and expertise is present to facilitate successful strategic direction.

As detailed in the Board Charter, in appointing new members to the Board, consideration is given to the ability of the appointee to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company. Consideration will also be given to achieving a Board with a diverse range of backgrounds.

The process used for selecting new members for the Board, as set out in the Board Charter, may be assisted by the use of external search organisations as appropriate. An offer of a Board appointment will be made by the Chairman of the Board only after having consulted all Directors. Detailed background information in relation to a potential candidate is provided to all Directors.

Corporate Governance Report

At 31 December 2013

Board, Committee and Director performance evaluation

The Board undertakes ongoing self-assessment. The review process in 2013 included an assessment of the performance of the Board, the Board Committees, and each Director. The review :

- compares the performance of the Board and each Committee with the requirements of its Charter;
- critically review the composition of the Board; and
- reviewed the Board and each Committee Charter to consider whether any amendments to the Charters as are deemed necessary or appropriate.

The Board discussed the results of the review and follow up actions on matters relating to Board process and priorities.

Induction

The Company Secretary facilitates an induction program for new Directors. The program will include meetings with senior executives, briefings on the Company's strategy and operations, provision of all relevant corporate governance material and policies and discussions with the Chairman and other Directors.

Continuing education

Directors are provided with continuing education opportunities to update and enhance their skills and knowledge. This consists of regular updates for the Board from management, separate to Board meetings to ensure Non-Executive Directors are well-informed of the Company's operations and any recent developments.

Access to information, indemnification and independent advice

The Company Secretary provides assistance to the Board, and Directors also have access to senior executives at any time to request any relevant information. The Board Charter provides that:

- all Directors have unrestricted access to company records and information except where the Board determines that such access would be adverse to the Company's interests;
- all Directors may consult management and employees, as required, to enable them to discharge their duties as Directors; and
- the Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board.

Conflicts of interest

The Constitution and Code of Business Conduct and Ethics set out the obligations of Directors in dealing with any conflicts of interest. Pursuant to the Constitution and the Code of Business Conduct and Ethics, Directors are obliged to:

- disclose to the Board any actual or potential conflicts of interest which may exist as soon as they become aware of the issue;
- take any necessary and reasonable measures to resolve the conflict; and
- comply with all laws in relation to disclosure of interests and restrictions on voting.

Unless the Board determines otherwise, a Director with any actual or potential conflict of interest in relation to a matter before the Board, does not:

- receive any Board papers in relation to that matter; and
- participate in any discussion or decision making in relation to that matter.

Corporate Governance Report

At 31 December 2013

Operation of the Board

The Board met 8 times during the year. The agenda for each meeting allows an opportunity for the Chairman and Non-Executive Directors to meet without executives present. The agenda and relevant briefing papers are distributed by the company secretary on a timely basis, usually a week in advance of each Board meeting.

The following table summarises the number of board and committee meetings held during the year and the attendance record of individual directors:

	Board meetings		**Audit and Risk Committee**		**Remuneration Committee**		**Nomination Committee**	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Peter Stephens	8	7	3	2	2	2	2	2
Paul Barnes	8	8	3	3	2	2	-	-
David Deacon	8	8	-	-	-	-	2	2
Scott Minehane	8	8	3	3	2	2	2	2

Principle 3: Promote ethical and responsible decision making

Corporate Code of conduct

The Company has implemented a corporate Code of Business Conduct and Ethics (the Code) which applies to Directors and all employees. The Code provides a framework for decisions and actions for ethical conduct. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders. The Code sets out the principles covering appropriate conduct in a variety of contexts and outlines the minimum standard of behaviour expected from Directors and employees.

Employees are encouraged to raise any matters of concern in good faith with the head of their business unit without fear of retribution. Where the matter is inappropriate to be raised with the head of their business unit, employees are able to raise the matter with the CEO or CFO as appropriate.

The CFO reviews and reports directly to the Board on any material breaches of the Code. The Audit and Risk Committee oversees procedures for whistleblower protection.

A copy of the Code is available on the Company's website in the "Investor" section under "Corporate Governance".

Dealings in securities

The Company has implemented a Securities Trading Policy which covers dealings in the Company's securities by its Key Management Personnel (Directors and those employees reporting to the CEO). The Securities Trading Policy sets out the guidelines for trading in the Company's securities, including closed periods, exceptions and approval and notification requirements.

A copy of the Securities Trading Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Corporate Governance Report

At 31 December 2013

Diversity

The Company has implemented a Diversity Policy.

The Company considers that the gender ratio of employees reflects the gender ratio of the qualified engineer pool. The Company does not, therefore, believe that establishing measurable objectives for achieving gender diversity would provide any benefit above that already achieved via the Diversity Policy.

At the date of this report, the gender ratio is as follows:

- 4 Board members: all male,
- Chief Operating Officer and Chief Financial Officer: both male,
- Workforce (excluding senior management and executive directors); 47 Employees: 6 female, 41 male

The Diversity Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee governed by the Audit and Risk Committee Charter, which is available on the Company's website in the "Investor" section under "Corporate Governance".

The objective of the Audit and Risk Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance. The Audit and Risk Management Committee's responsibilities include:

- Oversee the Company's relationship with the external auditor and the external audit function generally;
- Oversee the preparation of the financial statements and reports;
- Oversee the Company's financial controls and systems;
- Review, monitor and approve the Company's risk management policies, procedures and systems; and
- Manage the process of identification and assessment of any material financial and nonfinancial risks (including enterprise risks and risks in relation to occupational health and safety) that may impact the business.

Audit and Risk Management Committee composition

The Audit and Risk Management Committee consists only of Non-Executive Directors and the Chairman is not the Chairman of the Board. The members of the Audit and Risk Management Committee are Mr Scott Minehane, Chair of the Committee, Mr Peter Stephens and Mr Paul Barnes. Both Mr Scott Minehane and Mr Peter Stephens are Independent Non-Executive Directors.

Meetings are attended by the lead external audit partner and, by invitation, the Group Chief Executive Officer and the Chief Financial Officer.

The Board of Directors has received assurance from the Group Chief Executive Officer and the Chief Financial Officer a declaration the financial information included in the annual report is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Corporate Governance Report

At 31 December 2013

Principle 5: Make timely and balanced disclosure

The Company is committed to ensuring:

- compliance with the requirements of the ASX Listing Rules, all relevant regulations and the ASX Recommendations;
- facilitation of an efficient and informed market in the Company's securities by keeping the market appraised through ASX announcements of all material information.

The Company has implemented a Disclosure Policy which is designed to support the commitment to a fully informed market in the Company's securities by ensuring that announcements are:

- made to the market in a timely manner, are factual and contain all relevant material information; and
- expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Disclosure Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 6: Respect the rights of shareholders

The Company has adopted a Communications Policy which aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders through:

- Half yearly and Annual Reports;
- disclosures and announcements made to the Australian Securities Exchange (ASX);
- notices and explanatory memoranda of Annual General Meetings and Extraordinary General Meetings and addresses or presentations made at those meetings; and
- the Company's website.

The Board also encourages participation by shareholders at all shareholder meetings.

The Communications Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 7: Recognise and manage risk

The Company is committed to ensuring that:

- its culture, processes and structures facilitate realisation of the Company's business objectives whilst material risks are identified, managed, monitored and wherever appropriate and possible, mitigated; and
- to the extent practicable, its systems of risk oversight, management and internal control comply with ASX Recommendations.

The Board determines the Company's risk profile and is responsible for overseeing and approving the Company's risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Management Committee responsibility for implementing the risk management system and reporting to the Board.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report to the Audit and Risk Management Committee.

In accordance with the ASX Recommendations (recommendation 7.2), the CEO and CFO will state to the Board on an annual basis that the management of the Company's material business risks is effective. This declaration has been received for the year ended 31 December 2013.

A copy of the Company's risk management policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Corporate Governance Report

At 31 December 2013

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee, which is governed by the Remuneration Committee Charter. The Charter is available on the Company's website in the "Investor" section under "Corporate Governance".

The primary purpose of the Committee is to support and advise the Board in fulfilling its responsibilities to shareholders by:

- reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- recommending to the Board the remuneration of executive Directors;
- fairly and responsibly rewarding executives having regard to the performance of the Company, the performance of the executive and the prevailing remuneration expectations in the market;
- reviewing the Company's recruitment, retention and termination policies and procedures for senior management;
- reviewing and approving the remuneration of direct reports to the Chief Executive Officer, and as appropriate other senior executives and conducting an annual review of remuneration by gender; and
- reviewing and approving any equity based plans and other incentive schemes.

The Remuneration Committee consists only of Non-Executive Directors. The members of the Remuneration Committee are Mr Peter Stephens, Chair of the Committee, Mr Paul Barnes and Mr Scott Minehane. Mr Scott Minehane and Mr Peter Stephens are Independent Non-Executive Directors.

Corporate Governance Report

ASX Recommendation		Compliance
1.1	The entity has established the functions reserved to the board and those delegated to senior executives and has disclosed those functions.	Etherstack plc fully complies with this recommendation.
1.2	The entity has disclosed the process for evaluating the performance of senior executives.	Etherstack plc fully complies with this recommendation.
1.3	The entity has provided the information indicated in the Guide to reporting on Principle 1.	Etherstack plc fully complies with this recommendation.
2.1	A majority of the board are independent directors.	Etherstack does not fully comply with this recommendation. The Board of directors comprises 4 directors of which 2 are independent. A third non-executive director is not considered independent as a result of prior executive roles in the group. Notwithstanding the board has equal number of independent and non-independent directors, with regard to the size of the company and the nature of its activities the Board considers that the current Board is a cost effective and practical method of directing and managing the company.
2.2	The chair is an independent director.	Etherstack plc fully complies with this recommendation.
2.3	The roles of chair and chief executive officer are not exercised by the same individual.	Etherstack plc fully complies with this recommendation.
2.4	The board has established a nomination committee.	Etherstack plc fully complies with this recommendation.
2.5	The entity has disclosed the process for evaluating the performance of the board, its committees and individual directors.	Etherstack plc fully complies with this recommendation.
2.6	The entity has provided the information indicated in the Guide to reporting on Principle 2.	Etherstack plc fully complies with this recommendation.
3.1	The entity has established a code of conduct and has disclosed the code or a summary of the code as to: • The practices necessary to maintain confidence in the entity's integrity • The practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Etherstack plc fully complies with this recommendation.

Corporate Governance Report

ASX Recommendation		Compliance
3.2	The entity has established a policy concerning diversity and has disclosed the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and the progress in achieving them.	Etherstack plc complies with this recommendation in terms of establishing a policy and disclosing the policy. Measurable objectives for achieving gender equality have not been established.
3.3	The entity has disclosed in the annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Measurable objectives for achieving gender equality have not been established.
3.4	The entity has disclosed in the annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the board.	Etherstack plc fully complies with this recommendation.
3.5	The entity has provided the information indicated in the Guide to reporting on Principle 3.	Etherstack plc complies with this recommendation.
4.1	The board has established an audit committee.	Etherstack plc fully complies with this recommendation.
4.2	The audit committee is structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members.	Etherstack plc fully complies with this recommendation.
4.3	The audit committee has a formal charter.	Etherstack plc fully complies with this recommendation.
4.4	The entity has provided the information indicated in the Guide to reporting on Principle 4.	Etherstack plc fully complies with this recommendation.
5.1	The entity has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and has disclosed those policies or a summary of those policies.	Etherstack plc fully complies with this recommendation.
5.2	The entity has provided the information indicated in the Guide to reporting on Principle 5.	Etherstack plc fully complies with this recommendation.
6.1	The entity has designed a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and has disclosed the policy or a summary of the policy.	Etherstack plc fully complies with this recommendation.

Corporate Governance Report

ASX Recommendation		Compliance
6.2	The entity has provided the information indicated in the Guide to reporting on Principle 6.	Etherstack plc fully complies with this recommendation.
7.1	The entity has established policies for the oversight and management of material business risks and has disclosed a summary of those policies.	Etherstack plc fully complies with this recommendation.
7.2	The entity has required management to design and implement the risk management and internal control system to manage the entity's material business risks and report to it on whether those risks are being managed effectively. The board has disclosed that management has reported to it as to the effectiveness of the entity's management of its material business risks.	Etherstack plc fully complies with this recommendation.
7.3	The entity has disclosed whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Etherstack plc fully complies with this recommendation.
7.4	The entity has provided the information indicated in the Guide to reporting on Principle 7.	Etherstack plc fully complies with this recommendation.
8.1	The entity has established a remuneration committee.	Etherstack plc fully complies with this recommendation.
8.2	The remuneration committee is structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	Etherstack plc fully complies with this recommendation.
8.3	The entity has clearly distinguished the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Etherstack plc fully complies with this recommendation.
8.4	The entity had provided the information indicated in the Guide to reporting on Principle 8.	Etherstack plc fully complies with this recommendation.

Directors' Report

The Directors present their annual report with the statutory financial statements of the Group for the year ended 31 December 2013.

This report should be read in conjunction with the Strategic Report on pages 3 to 6.

1. Board of Directors and officers of the company

The names of the Directors who held office during the 2013 year and to the date of this report were:

Director Name	Position	Nationality	Appointed
Peter Stephens	Non-Executive Chairman	British	6 June 2012
Paul Barnes, FCCA	Non-Executive Director	British	15 February 2012
David Deacon	Executive Director and CEO	Australian	15 February 2012
Scott Minehane	Non-Executive Director	Australian	6 June 2012

The joint company secretaries are:

- Paul Barnes; and
- David Carter.

2. Results

The Group realised a loss after tax for the year of $4,581,000 (2012: loss of $1,074,000).

Earnings per share

Basic EPS from continuing operations has decreased from (3.5) to (14.1) US cents.

3. Going Concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will continue in operational existence for the foreseeable future. During the year, the Group incurred a loss after tax of $4,581,000 (2012: loss of $1,074,000) and the Group experienced a reduction in revenues compared to the prior year.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of certain revenue targets set out in the business plan. Although revenue declined in 2013 as outlined in the Strategic Report, the Directors have conducted a business-wide review and implemented a series of actions to rationalise costs. The Directors have considered the strength of the sales pipeline, contracts in progress, royalty revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event that revenue targets were not met then this would place a short term strain on cash reserves, although the Directors have identified certain mitigating actions that could be implemented to preserve cash if required. Additionally, the Directors note the Company has a record of successful fund raising, if required, to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders.

The Directors acknowledge that there can be no certainty that these revenue targets will be met or the timing of such revenues will be in line with the cash flow forecast and these material uncertainties may cast significant doubt over the ability of the Group and the Company to continue as a going concern. However, after considering these uncertainties, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

Directors' Report

4. Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees where appropriate.

5. Dividend

The directors cannot recommend the payment of a final dividend for the year ended 31 December 2013 (2012: $nil).

6. Directors' indemnity insurance

The Company has arranged appropriate Directors' and Officers' insurance to indemnify the Directors against liability in respect of proceedings brought about by third parties. Such provisions remain in place at the date of this report.

7. Auditor

Grant Thornton UK LLP were appointed as auditor of Etherstack plc post year end by the Directors. A resolution to reappoint Grant Thornton UK LLP as auditor of Etherstack plc will be put to the shareholders at the Annual General Meeting.

8. Financial Risk management objectives

The Groups financial risk management objectives and policies and exposures to risk are outlined in Note 21 to the Financial statements.

9. Rounding of Amounts and presentational Currency

Amounts in the Directors Report and the accompanying financial report have been rounded to the nearest thousand dollars, or in certain cases to the nearest dollar, unless otherwise expressly stated. The Group financial statements are presented in US Dollar ("$") which is the Group's presentational currency.

On behalf of the board

Paul Barnes FCCA
Director
28 March 2014

Remuneration Report

There is no regulatory requirement for Etherstack plc to disclose information on the remuneration arrangements in place for Directors and Executives of Etherstack plc, however the Remuneration Committee is committed to the best corporate governance standards and has disclosed information considered relevant to the shareholders.

Remuneration policy for Executive Directors

The remuneration policy for Executive Directors has been designed to ensure Executive Directors receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration Committee seeks to ensure the policy aligns the interests of the Executive Directors with those of the shareholders.

The Company's remuneration policy for Executive Directors is to:

- Consider the individuals experience and the nature and complexity of their work in order to set a competitive salary that attracts and retains management of the highest quality
- Link individual remuneration packages to the Group's long term performance through both bonus schemes and share option plans: and
- Provide post-retirement benefits through payment into pension schemes

Remuneration package for Executive Directors

Executive Directors' remuneration packages are considered annually by the Remuneration Committee in line with Company policy, with a view to attracting, retaining and motivating Executive Directors of the calibre necessary to deliver the strategic milestones of the Board. Remuneration packages comprise a number of elements as follows:

Base salary
The base salary is reviewed annually. Within the review process, which is undertaken by the Remuneration Committee, regard is given to the profitability and on-going development of the Group and the contribution that each individual makes. Consideration is also given to the need to retain and motivate individuals, with reference made to available information on salary levels in comparable organisations as well as that of the wider workforce of the company. To assist in this process the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research.

Annual performance incentive
The Executive Directors are eligible to receive, at the discretion of the Remuneration Committee, an annual bonus. The Remuneration Committee considers the implementation of bonus awards based upon both corporate and personal performance targets and measures, which align to the long term interests of shareholders.

Pensions and other benefits
The Group does not operate a Group pension scheme; instead individuals receive contributions to their private pension plans

Share options
Executive Directors may, at the discretion of the Remuneration Committee, be awarded share options.

The performance of Executive Directors is evaluated by the Remuneration Committee on an annual basis with a view to ensuring that there is a sufficiently strong link between performance and reward. The results of performance evaluations are taken into consideration as part of the annual remuneration review.

Remuneration policy for Non-Executive Directors
Non-Executive Directors are paid a fixed annual fee for acting as a Director of Etherstack plc which is paid for services rendered as a Director. Additionally, under the Articles of Association, a Director may also be paid such special or additional remuneration as the Directors decide, if the Director performs extra services or makes special exertions for the benefit of the company. Such amounts do not form part of the aggregate remuneration permitted under the Articles of Association (the current aggregate remuneration may not exceed $300,000 per annum).

The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The Non-Executive Directors each have service agreements that are reviewed annually by the Board.

Remuneration Report

Directors' remuneration (audited)

The Directors received the following remuneration in the year ended 31 December 2013.

2013

	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	2,650	262,650
	260,000	2,650	262,650
Non-Executive Directors			
Peter Stephens	40,671	-	40,671
Paul Barnes - note (a)	57,068	-	57,068
Scott Minehane	43,551	3,974	47,525
	141,290	3,974	145,264
TOTAL	**401,290**	**6,624**	**407,914**

2012 (Notwithstanding Etherstack plc was incorporated on 15 February 2012, the Directors, were employed and paid by other Group companies up until this date).

	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	1,398	261,398
Non-Executive Directors			
Peter Stephens	40,636	-	40,636
Paul Barnes - note (a)	118,779	-	118,779
Scott Minehane	31,875	3,335	35,210
	191,290	3,335	194,625
TOTAL	**451,290**	**4,733**	**456,023**

Note (a) – amounts set out in the above table include amounts paid to a related party of $9,892 (2012 $76,105).

Remuneration Report

Director's Share options

In addition, the following options have been issued to Directors.

Name of Director	Options Granted	Total Shares Vested as at 1 January 2013	Shares vesting in the year	Total Shares Vested as at 31 December 2013	Exercise price	Earliest date of Exercise	Date of Expiry
Non-Executive							
Scott Minehane	190,000	190,000	-	190,000	AUD$1.16	25/6/2012	25/6/2017
Peter Stephens	125,000	125,000	-	125,000	GBP0.8	n/a	30/8/2016

Directors' interests

The Directors' interests in shares and other securities in Etherstack plc are set out below:

Director	**Number of ordinary Shares 31 December 2013**	**Number of ordinary Shares 31 December 2012**	**Number of options 31 December 2013**	**Number of options 31 December 2012**	**Number of Convertible notes 31 December 2013**	**Number of Convertible notes 31 December 2012**
David Deacon	18,241,850	18,241,850	-	-	570,516	570,516
Peter Stephens	232,000	205,000	125,000	125,000	250,000	250,000
Paul Barnes	1,712,500	1,712,500	-	-	-	-
Scott Minehane	81,875	81,875	190,000	190,000	-	-

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report, the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Paul Barnes FCCA, Director

28 March 2014

Independent auditor's report to the members of Etherstack plc

We have audited the financial statements of Etherstack plc for the year ended 31 December 2013 which comprise the Consolidated Statement of Comprehensive income, the Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's and the parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's and the Parent Company's ability to continue as a going concern. The Group incurred a loss of $4,581,000 during the year ended 31 December 2013. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Naylor
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
28 March 2014

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Note	2013 $'000	2012 $'000 Restated
Revenue	2,3	5,200	7,051
Cost of sales		(2,420)	(2,632)
Gross Profit		2,780	4,419
Administrative expenses		(6,391)	(5,619)
Other expenses – net foreign exchange (losses)/gains	4(a)	(256)	(172)
Exceptional item: Provision for doubtful debt and provision for accrued income	4(b)	(499)	-
Group operating loss from continuing operations		(4,366)	(1,372)
Finance costs	7	(396)	(104)
		(396)	(104)
Loss before taxation		(4,762)	(1,476)
Income tax benefit	8	181	402
Loss after taxation for the year attributable to the equity holders of the parent		(4,581)	(1,074)
Other comprehensive income			
Items that may be classified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		60	98
Total comprehensive loss for the year attributable to the equity holders of the parent		(4,521)	(976)

Loss per share attributable to the equity holders of the parent			
Basic loss for the year (in cents)	20	(14.1)	(3.5)
Diluted loss for the year (in cents)	20	(14.1)	(3.5)

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Financial Position

as at 31 December 2013

	Note	2013 $'000	2012 $'000 Restated
Non-current assets			
Intangible assets	10	11,788	9,758
Property, plant and equipment	12	235	384
Trade and other receivables	14	257	517
		12,280	10,659
Current assets			
Inventories	13	296	371
Trade and other receivables	14	1,957	4,513
Cash and cash equivalents		29	272
		2,282	5,156
TOTAL ASSETS		14,562	15,815
Non-current liabilities			
Trade and other payables	15	3,884	1,547
Deferred tax liability		251	315
Deferred revenue	16	344	353
		4,479	2,215
Current liabilities			
Trade and other payables	15	3,478	2,343
Current tax liabilities		145	438
Deferred revenue	16	235	144
TOTAL LIABILITIES		8,337	5,140
NET ASSETS		6,225	10,675
Capital and reserves			
Share capital	17	205	205
Share premium account		2,282	2,282
Merger reserve		3,497	3,497
Share based payment reserve		361	290
Foreign currency translation reserve		(1,742)	(1,802)
Retained earnings		1,622	6,203
TOTAL EQUITY		6,225	10,675

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 28 March 2014.

Signed on behalf of the Board of Directors

Paul Barnes FCCA, Director
The accompanying notes form an integral part of the financial statements.

Company Statement of Financial Position

as at 31 December 2013

	Note	2013 $'000	2012 $'000
Non-current Assets			
Investments in subsidiaries	11	7,311	7,311
Current Assets			
Trade and other receivables	14	5,291	3,627
TOTAL ASSETS		12,602	10,938
Current Liabilities			
Trade and other payables	15	812	129
		812	129
Non-current Liabilities			
Trade and other payables	15	3,206	1,547
TOTAL LIABILITIES		4,018	1,676
NET ASSETS		8,584	9,262
Capital and reserves			
Share capital	17	205	205
Share premium account		2,282	2,282
Merger reserve		6,742	6,742
Foreign currency reserve		100	100
Share-based payment reserve		361	290
Retained earnings		(1,106)	(357)
TOTAL EQUITY		8,584	9,262

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 28 March 2014.

Signed on behalf of the Board of Directors

Paul Barnes FCCA
Director

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

At 31 December 2013

	Share Capital	Share Premium Account	Merger Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2012	181	-	3,497	48	(1,900)	7,358	9,184
Issue of ordinary shares	14	3,295	-	-	-	-	3,309
Issue costs	-	(1,082)	-	-	-	-	(1,082)
Share based payment charge	-	-		240	-	-	240
Effects of foreign exchange on equity	10	69	-	2	-	(81)	-
Transactions with owners	24	2,282	-	242	-	(81)	2,467
Loss for the year (restated)	-	-	-	-	-	(1,074)	(1,074)
Effect of foreign exchange	-	-	-	-	98	-	98
Total comprehensive income for the year	-	-	-	-	98	(1,074)	(976)
Balance at 31 December 2012	205	2,282	3,497	290	(1,802)	6,203	10,675
Share based payment charge	-	-	-	71	-	-	71
Transactions with owners	-	-	-	71	-	-	71
Loss for the year	-	-	-	-		(4,581)	(4,581)
Other comprehensive income	-	-	-	-	60	-	60
Total comprehensive income for the year	-	-	-	-	60	(4,581)	(4,521)
At 31 December 2013	205	2,282	3,497	361	(1,742)	1,622	6,225

Company Statement of Changes in Equity

At 31 December 2013

	Share capital $'000	Share premium account $'000	Merger Reserve $'000	Share based payment reserve $'000	Foreign currency reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 15 February 2012							
Issue of ordinary shares	14	3,295	-	-	-	-	3,309
Issue costs	-	(1,082)	-	-	-	-	(1,082)
Group reorganisation	181	-	6,742	48	-	-	6,971
Share based payment charge	-	-	-	240	-	-	240
Effect of foreign exchange on equity	10	69	-	2	-	(81)	-
Transactions with owners	205	2,282	6,742	290	-	(81)	9,438
Loss for the period	-	-	-	-	-	(276)	(276)
Effect of foreign exchange	-	-	-	-	100	-	100
Total comprehensive income for the year	-	-	-	-	100	(276)	(176)
Balance at 31 December 2012	205	2,282	6,742	290	100	(357)	9,262
Share based payment charge	-	-	-	71	-	-	71
Transactions with owners	-	-	-	71	-	-	71
Loss for the period	-	-	-	-	-	(749)	(749)
Total comprehensive income for the year	-	-	-	-	-	(749)	(749)
Balance at 31 December 2013	**205**	**2,282**	**6,742**	**361**	**100**	**(1,106)**	**8,584**

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 $'000	2012 $'000 Restated
Operating loss		(4,366)	(1,372)
Adjustments for:			
Depreciation of property, plant and equipment		147	211
Amortisation of intangible assets		1,391	793
Equity settled share based transactions		71	240
Provision for doubtful debt and provision for accrued income		499	-
Revaluation of embedded derivative		(134)	-
Unrealised foreign exchange		256	-
Operating cash flows before movements in working capital		**(2,136)**	**(128)**
Decrease/(increase) in inventories		75	(169)
Decrease/(increase) in receivables		2,317	(1,181)
Increase in Payables		1,008	621
Increase in Deferred revenue		82	-
Cash generated from/(used in) operations		**1,346**	**(857)**
Income taxes paid		(183)	(42)
Interest paid		(396)	(104)
Net cash flow from/ (used in) operating activities		**767**	**(1,003)**
Investing activities			
Purchases of intangible assets and development costs		(3,578)	(4,779)
Purchases of property, plant and equipment		(28)	(371)
Net cash flow (used in) investing activities		**(3,606)**	**(5,150)**
Financing activities			
Increase/(decrease) in Directors' loans		939	(59)
Proceeds on issue of shares		-	3,309
Share issue costs		-	(1,082)
Proceeds on issue of convertible notes		1,659	1,580
Net cash flow from financing activities		**2,598**	**3,748**
Net decrease in cash and cash equivalents		**(241)**	**(2,405)**
Effect of foreign exchange rate changes		(2)	17
Cash and cash equivalents at 1 January		**272**	**2,660**
Cash and cash equivalents at 31 December		**29**	**272**

The accompanying notes form an integral part of the financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2013

	Company 2013 $'000	Company 2012 $'000
Operating loss	(749)	(276)
Decrease/(increase) in receivables	71	(87)
(Increase)/ decrease in intercompany receivable	(1,662)	26
Increase in payables	243	129
Net cash used in operating activities	(2,097)	(208)
Financing activities		
Net cash from financing activities		
Proceeds on issue of convertible notes (Note 15)	1,525	208
Increase in loans	574	-
Net cash from financing activities	2,099	208
Net increase in cash and cash equivalents	2	-
Cash and cash equivalents at 1 January 2013 (15 February 2012)	-	-
Effect of foreign exchange rate changes	(2)	-
Cash and cash equivalents at end of year	-	-

Note – the proceeds of the issue of shares in the IPO were received by Group companies.

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated and Company Financial Statements

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1. Accounting Policies

1.1 Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of Etherstack plc and its subsidiaries (the Group) for the year ended 31 December 2013 were authorised for issue by the board of directors on 28 March 2014 and the Statement of Financial Position was signed on the board's behalf by Mr Paul Barnes. Etherstack plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares, when held as a Chess Depository Interest (CDI) and registered on the CDI register, are tradable on the Australian Securities Exchange (ASX). Ordinary shares on the UK share register cannot be traded on the ASX.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2013 and applied in accordance with the Companies Act 2006.

The principal accounting policies adopted by the Group are set out below.

1.2 Basis of Preparation

The Group financial statements are presented in US Dollar ("$") which is the Group's presentational currency. The Group operates in international markets and the US Dollar provides the most comparable currency for peer companies.

All values are rounded to the nearest thousand dollars ($000) except where otherwise indicated.

Etherstack plc, was incorporated on 15 February 2012 as MM&S (5698) plc. The Company changed its name to Etherstack plc on 4 May 2012. On 19 March 2012 a group reorganisation was undertaken whereby existing shares in Etherstack London Limited (formerly Etherstack Limited) were exchanged for shares in the Company on the same proportion of shareholding. As a result of the group reorganisation, Etherstack plc became the parent and ultimate holding company for the Etherstack Group in preparation for the listing of Etherstack plc on the Australian Stock Exchange.

An outcome of the reorganisation is that the former Etherstack London Limited shareholders held 100% of the issued shares in Etherstack plc at the date of the reorganisation. Although from a legal and taxation perspective Etherstack plc is considered as the purchaser in the reorganisation, the accounting treatment reflects the underlying economic substance of the reorganisation being the consolidated financial statements of Etherstack plc are a continuation of Etherstack London Limited. Accordingly, the Consolidated Statement of Comprehensive Income for the year ended 31 December 2012 comprises the financial performance of the Etherstack London Limited group for the full 12 months.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements.

1.2.1 Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will continue in operational existence for the foreseeable future. During the year, the Group incurred a loss after tax of $4,581K (2012: loss of $1,074K) and the Group experienced a reduction in revenues compared to the prior year.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of certain revenue targets set out in the business plan. Although revenue declined in 2013 as outlined in the Strategic Report, the Directors have conducted a business-wide review and implemented a series of actions to rationalise costs. The Directors have considered the strength of the sales pipeline, contracts in progress, royalty revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event that revenue targets were not met then this would place a short term strain on cash reserves, although the Directors have identified certain mitigating actions that could be implemented to preserve cash if required. Additionally, the Directors note the Company has a

Notes to the Consolidated and Company Financial Statements

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record of successful fund raising, if required, to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders.

The Directors acknowledge that there can be no certainty that these revenue targets will be met or the timing of such revenues will be in line with the cash flow forecast and the directors have therefore concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt over the ability of the Group and the Company to continue as a going concern. However, after considering these uncertainties, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

1.2.2 Changes in accounting policy and disclosures

The Group has adopted the following amendments to IFRS issued by the IASB, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2013:

- Amendment to IAS 1 • Presentation of financial statements
- IFRS 13 • Fair value measurement

Amendment to IAS 1
This amendment requires changes to presentation of items within the Consolidated Statement of Comprehensive Income so that they are now analysed between those that will be reclassified subsequently to profit and loss and those that will not. IAS 1 requires presentation of a comparative balance sheet at the beginning of the first comparative period where there has been a change in accounting policies. Management considers that this is not necessary this year because the 2012 balance sheet is the same as that previously published.

IFRS 13
IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The Group has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7 'Financial Instruments: Disclosures'. The Group has applied IFRS 13 for the first time in the current year.

1.2.3 Standards and interpretations issued but not yet applied

New standards and interpretations currently in issue but **not** effective for accounting periods commencing on 1 January 2013 are:

- IFRS 9 Financial Instruments (no mandatory effective date)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11 Joint Arrangements (effective 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2014)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2014)
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective 1 January 2014)

Notes to the Consolidated and Company Financial Statements

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- IFRIC Interpretation 21 Levies (effective 1 January 2014)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (effective 1 January 2014)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective 1 January 2014)
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) (effective 1 July 2014)

The Group is continually assessing the effect of the standards listed above. The directors believe that these standards will not have a material impact on the financial statements of the Group in future periods.

1.2.4 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Revenue recognition

The revenue and profit of fixed price contracts is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. Management makes estimates of the cost incurred to date as a percentage of the total cost to be incurred. This involves forecasting future costs and requires estimates and judgements. These estimates are continually revised based on changes in the facts relating to each contract. Any changes in estimates are reflected in that period.

Capitalisation and recoverability of Development costs

The Group recognises an internally-generated intangible asset arising from the Group's software development only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the technical feasibility of completing the asset so that it will be available for use or sale;
- the Group intends to complete the asset and use or sell it;
- the Group has available adequate technical, financial and other resources to complete the development and to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

These criteria are assessed on a project by project basis from the outset and continuing through to project completion. This assessment requires management judgement to determine whether the criteria are met, which is often reliant on expectations of future events.

During the year, the Group recognised internally-generated intangible assets totalling $3,414,000 (2012 $4,559,000).

The Directors considered the recoverability of the internally-generated intangible asset arising from the capitalisation of development costs which is included in the consolidated balance sheet (refer Note 10) at $10,277,000 (2012 $8,151,000).

The review of recoverability encompasses consideration of changes to the expected cash flows and margins to be generated by these assets and the expected period over which future benefits are likely to be derived. The outcome of the review supports the expectation that future revenues and profits will be derived from the intellectual property assets developed by the Group.

Expected revenues and margins generated by these assets will continue to be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

Notes to the Consolidated and Company Financial Statements

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Impairment of intangible assets, goodwill and property, plant and equipment

The Group annually tests whether the intangible assets and property, plant and equipment have suffered any impairment. The Group estimates the assets' or the cash generating units', recoverable amount. The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell.

Income and other taxes

The Group is subject to income and other tax in the UK, USA, Australia, Japan and other countries. Significant judgement is required in determining the provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Deferred tax assets are recognised relating to tax losses to the extent that it is probable future taxable profits will arise in that jurisdiction.

Share-based payments

In determining the fair value of equity settled share based payments and the related charge to the Statement of Comprehensive Income, the Group must make assumptions about inputs into valuation models, future events and market conditions. Judgment is made to the likely number of shares that will vest, and inputs into valuation models, the fair value of each award granted.

Share options are measured at fair value at the grant date using the Black-Scholes model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of options that will eventually vest.

1.3 Significant accounting policies

1.3.1 Basis of consolidation

The Group financial statements consolidate the financial statements of Etherstack plc and the entities it controls (its subsidiaries) drawn up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising from them, are eliminated in full.

1.3.2 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not re measured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

1.3.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Licence fees and revenue from the sale of goods

Sales of goods include technology access licences, manufactured equipment sales, and white labelled equipment sales.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the buyer; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Technology access licences revenues are recognised on the same basis as the sale of goods as there are no ongoing performance obligations associated with them.

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Rendering of services

Services include sales of system solutions and wireless technology design services.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined based on the percentage of work that has been completed, measured through time and cost incurred and forecast to complete. At the balance sheet date, revenue is accrued or deferred as appropriate depending on the stage of contractual billings compared with the work performed to the balance sheet date.

Revenue from support contracts

Revenue from support contracts is recognised evenly over the period of the support contract.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Interest income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Dividends

Revenue is recognised when the Group's or the Company's right to receive payment is established.

Government grants
Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

1.3.4 Leasing

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.3.5 Foreign currency translation

US$ has been adopted as the presentational currency in these financial statements. The Directors have considered the appropriate functional currency for each individual operation.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are

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denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to minority interests as appropriate).

1.3.6 Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

1.3.7 Taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all material taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

No deferred tax liabilities have been recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, as the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity or when it relates to items in other comprehensive income, in which case it is recognised in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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1.3.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write-off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold improvements	over 5 years (or the length of the lease, whichever is shorter)
Computer equipment	over 3 years
Furniture and equipment	over 5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

1.3.9 Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's intellectual property development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the technical feasibility of completing the asset so that it will be available for use or sale;
- the Group intends to complete the asset and use or sell it;
- the Group has available adequate technical, financial and other resources to complete the development and to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets have a finite useful life, and are amortised on a straight-line basis over that useful life, determined as the shorter of 6 years or the estimated delivery model. Amortisation of the asset begins when development is complete and the asset is available for use, such that it can be deployed to customers. During the period of development, the asset is tested for impairment annually.

The underlying core Intellectual Property associated with all of the Group's products is being amortised over ten years.

Customer relationships

Intangible assets classified as customer relationships are recognised when acquired as part of a business combination and are measured initially at fair value. Customer relationships are amortised based on the expected pattern of benefits to be derived from the customer relationships.

Engineering software

Purchased engineering software (including licences) is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over 5 years from the date the software is installed. The asset is tested for impairment annually.

1.3.10 Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate

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that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1.3.12 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised and subsequently measured based on their classification as "loans and receivables" or "financial liabilities measured at amortised costs".

Loans and receivables

Trade and receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. The Group's loans and receivables comprise of trade and other receivables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and fixed-term deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash. These are initially and subsequently recorded at fair value.

Convertible notes

Convertible notes are denominated in Australian dollars and consequently there is an embedded derivative. Accordingly, the Convertible Notes are recognised as a financial liability of the Group and measured at amortised cost.

Transaction costs are allocated against the liability when the instruments are first recognised.

Other financial liabilities

Other financial liabilities, including trade and other payables, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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1.3.14 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 19.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair of the liability. At the Balance Sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

1.3.15 Investments in subsidiaries

Investments are carried at their historic cost, and are reviewed annually for impairment. Any impairment losses are booked in the year that they arise.

1.3.16 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those expected to be settled wholly within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses and non-monetary benefits), are recognised in the period in which the service is rendered and are not discounted.

Long-term employee benefits

Liabilities for long service leave expected to be settled within the next 12 months are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities expected to be settled more than 12 months from the balance date are also recognised in the provision for long service leave. The liabilities are discounted and consideration is given to periods of service.

Employee benefit on-costs

A liability is also carried for on-costs, including payroll tax and other insurances, in respect of provisions for certain employee benefits which attract these costs.

1.3.17 Own shares

Etherstack plc shares held by the Group are deducted from equity as own shares and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to revenue reserves. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

1.3.18 Cash and Cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

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2. Revenue

An analysis of the Group's revenue is as follows:	2013 $'000	2012 $'000
Licence fees, design, development and supply of wireless communications technology	4,506	6,083
Royalties	518	757
Grant receipts – research and development incentives	176	211
	5,200	7,051

3. Segmental information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executive Officer to allocate resources and to assess performance. The Group is operational in geographical locations including the United Kingdom, United States, Japan, Singapore and Australia. The Group operates and reports as one business segment and is not analysed by management in either separate functions or geographical regions, as due to the nature of the work and complexity of the software, there is a large degree of collaboration and integration across the countries for any given project.

Geographical information

Revenue from external customers by region	2013 $'000	2012 $'000
Country/region of domicile		
United Kingdom	-	13
North America	1,232	2,943
Australia and New Zealand	1,380	1,650
Japan	2,462	2,131
Other countries	126	314
	5,200	7,051

The revenue information above is based on location of the customer.

Non-current assets by region	2013 $'000	2012 $'000
Country/region of domicile		
United Kingdom	10,664	8,489
North America	23	26
Australia and New Zealand	1,336	1,273
Other countries	-	1
	12,023	9,789

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

Revenues from a single customer amounting to more than 10% of group revenue	**2013 $'000**	**2012 $'000**
Customer A	731	102
Customer B	956	1,815
Customer C	1,506	1,055
	3,193	2,972

Revenues from customers which do not amount to more than 10% of Group revenue in a particular period are not disclosed.

Revenues by Product group

Networks	2,436	3,910
Protocols	2,462	2,356
Radio Frequency	116	562
Other	186	223
	5,200	7,051

4. Group operating loss

(a) This is stated after charging/(crediting):

Depreciation of property, plant and machinery	147	211
Operating lease costs	668	691
Amortisation of intangible assets	1,391	793
Foreign exchange losses	256	172
Inventory costs charged to costs of sales	427	354

(b) This is also stated after charging the following Exceptional item:

A general commercial dispute has arisen between Etherstack plc's wholly owned US subsidiary Etherstack Inc. and one of its technology licensees, Datron World Communications Inc, "Datron". This has resulted in legal action being initiated between Datron and Etherstack Inc. Etherstack Inc has made adjustments to amounts receivable of USD $206,000 from the customer and accrued income on the project of USD $293,000 making the total provision recognized USD $499,000.	499	-

Notes to the Consolidated and Company Financial Statements

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5. Auditor's remuneration

The Group paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Group:

	2013 $'000	2012 $'000
Grant Thornton UK LLP		
Audit of the Group financial statements	99	-
Audit of subsidiaries	30	-
	129	-
Ernst & Young LLP		
Half year review	129	-
Audit of the Group financial statements	-	114
Audit of subsidiaries	-	30
	129	144

No payment has been made to the auditor for non-audit services during the current year (2012 $nil).

6. Staff costs and Directors' emoluments

a) Staff costs	2013 $'000	2012 $'000
Wages and salaries	6,414	6,005
Social security costs	312	328
Pension costs	309	412
	7,035	6,745

Included in wages and salaries is a total expense relating to share-based payments of $71,000 (2012: $240,000).

The average monthly number of employees during the year was made up as follows:

	2013 Number	*2012 Number*
Executive Directors	1	1
Engineering	43	54
Management, sales & administrative	6	9
	50	64

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

b) Directors' emoluments	**2013 $'000**	**2012 $'000**
Emoluments	391	376
Amounts paid to third parties	10	76
	401	452
Pension costs	7	4
	398	456

The number of directors who are accruing benefits under:	**2013 Number**	**2012 Number**
Defined contribution schemes	2	2

Details of the highest paid director are included in the Remuneration Report on pages 21 to 23.

7. Finance Costs

	2013 $'000	**2012 $'000**
Related party loans (see note 23)	73	96
Convertible Notes	314	-
Other interest	9	8
	396	104

8. Taxation

Tax (credited)/charged in the statement of comprehensive income.	**2013 $'000**	**2012 $'000** Restated
Current income tax:		
UK corporation tax and income tax	-	(516)
Foreign tax	75	98
Current income tax expense/ (benefit)	75	(418)
Amounts (over)/under provided in previous years	(256)	16
Tax (benefit)/expense in the statement of comprehensive income	**(181)**	**(402)**

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

	2013 $'000	2012 $'000
The tax (benefit)/expense in the statement of comprehensive income is disclosed as follows:		
Income tax (benefit)/expense on continuing operations	(181)	(402)

Reconciliation of the total tax (credit)/charge

The tax expense in the statement of comprehensive income for the year is higher than the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are reconciled below:

	2013 $'000	2012 $'000
Loss before income tax	(4,761)	(1,476)
Tax at the UK corporation tax rate of 23.25% (2012: 24.5%)	(1,107)	(362)
Expenses not deductible for tax purposes	11	17
Carry forward/(utilisation) of tax losses	662	305
Effect of capital allowances in excess of depreciation	-	(152)
Enhanced R&D tax relief	496	(234)
Difference in overseas tax rates	77	8
Deferred Tax liability	(64)	-
Prior year adjustment	(256)	16
Total tax (benefit)/expense reported in the statement of comprehensive income	(181)	(402)

Unrecognised tax losses

The Group has tax losses which arose in the United Kingdom of $1,766,658 (2012 $1,102,544) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of losses carried forward as it is not considered probable that these will reverse in the near future. No deferred tax liability is recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences.

Change in Corporation Tax rate

On 2 July 2013 the UK Government substantially enacted reductions in the rate of UK Corporation Tax to 21% from 1 April 2014 and to 20% from 1 April 2015.

9. Parent company income statement

As permitted by section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of the financial statements. The parent company's loss for the financial year was $749,000 (2012 $276,000).

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

10. Intangible assets

	Capitalised development costs USD $000	Engineering software USD $000	Customer contract intangible USD $000	Goodwill Restated USD $000	Total Restated USD $000
Cost					
At 1 January 2012	4,467	327	1,122	353	6,269
Additions	4,559	220	-	-	4,779
Exchange differences	-	(11)	22	-	11
At 31 December 2012	9,026	536	1,144	353	11,059
Additions	3,414	164	-		3,578
Exchange differences	-	(3)	(165)	-	(168)
At 31 December 2013	12,440	697	979	353	14,469
Accumulated amortisation					
At 1 January 2013	875	337	89	-	1,301
Charge for the year	1,288	62	41	-	1,391
Exchange differences	-	(11)	-	-	(11)
At 31 December 2013	2,163	388	130	-	2,681
Carrying amount					
At 31 December 2013	10,277	309	849	353	11,788
At 31 December 2012	8,151	199	1,055	353	9,758

Prior year adjustment

Goodwill has been increased by $353,000 with effect from 1 January 2012 to correctly apply the Group's accounting policy for business combinations. The restatement has been made to record the deferred income tax liability on the customer contract intangible asset that initially arose on acquisition of Auria Wireless Pty Limited.

As a result of the restatement, the following adjustments have been made to the previously reported Statement of Comprehensive Income and the Statement of Financial Position for the year ended 31 December 2012. No 2012 comparative balance sheet has been presented as management have determined that the impact is not material to the balance sheet.

	2012 $'000
Deferred tax credit recorded in Statement of comprehensive income.	(38)
Deferred tax liability	(315)
Goodwill	353

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

Impairment Testing
Intangible assets comprise internal and external costs incurred on the development of specific products that meet the criteria under IAS 38 Intangible assets, Acquired customer relationship assets and goodwill.

The carrying value of the capitalised development costs is assessed annually for any impairment. This assessment allocates all the development costs to a single cash generating unit (CGU). Management have assessed that the group comprises of one CGU due to the interdependencies of the various intellectual property assets. The group estimates the assets' or all assets recoverable amount within the cash generating unit. The estimated recoverable amount is the higher of fair value less cost to sell and its value in use.

The intangible asset represented by Acquired Customer Relationship is amortised based on the pattern of expected economic benefits derived from the acquired customer relationship. For the purpose of impairment testing, Acquired Customer Relationship assets are allocated to a cash-generating unit The group estimates the assets' or all assets recoverable amount within the cash generating unit using the recoverable amount. The estimated recoverable amount is the higher of fair value less cost to sell and its value in use

Goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to a cash-generating unit. Management have assessed that the group comprises of one CGU due to the interdependencies of the Groups assets. The group estimates the assets' or all assets recoverable amount within the cash generating unit using the recoverable amount. The estimated recoverable amount is the higher of fair value less cost to sell and its value in use.

11. Subsidiary undertaking	**Company 2013 $000**	**Company 2012 $000**
Subsidiary undertakings	7,311	7,311

The Company's investments at 31 December 2013 in the share capital of other companies includes:

Subsidiary undertakings	Holding	Class of share	Country of incorporation
Etherstack London Limited (formerly Etherstack Limited)	100%	Ordinary	England and Wales
Etherstack Limited *	100%	Ordinary	British Virgin Isles
Indian Pacific Nederland BV *	100%	Ordinary	Netherlands
Etherstack Inc.*	100%	Ordinary	USA
Etherstack Pty Limited *	100%	Ordinary	Australia
Auria Wireless Pty Limited*	100%	Ordinary	Australia
Etherstack Japan Limited *	100%	Ordinary	Japan
Etherstack Pte Limited *	100%	Ordinary	Singapore

* These companies are owned via another Group entity, with Etherstack plc the ultimate parent company of the Group.

All of the companies in the Group develop and sell wireless software communications products.

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

12. Property, plant and equipment

Group	Leasehold property improvements $'000	Furniture and equipment $'000	Computer equipment $'000	Total $'000
Cost				
At 1 January 2012	97	159	682	938
Additions	146	178	47	371
Exchange differences	-	-	(11)	(11)
At 31 December 2012	243	337	718	1,298
Additions	-	19	9	28
Exchange differences	-	(10)	(1)	(11)
At 31 December 2013	243	346	726	1,315
Accumulated depreciation				
At 1 January 2012	71	135	494	700
Charge for the year	38	30	143	211
Exchange differences	-	1	2	3
At 31 December 2012	109	166	639	914
Charge for the year	29	45	73	147
Exchange differences	12	6	1	19
At 31 December 2013	150	217	713	1,080
Carrying amount				
At 31 December 2013	93	129	13	235
At 31 December 2012	134	171	79	384

13. Inventories

	2013 $'000	2012 $'000
Work in Progress	296	371

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

14. Trade and other receivables

	Group		Company	
	2013 **$'000**	**2012** **$'000**	**2013** **$'000**	**2012** **$'000**
Current				
Trade debtors	668	1,157	-	-
Allowance for non-recovery of trade debtor	(206)	-	-	-
Accrued Income from contracts in progress	924	1,981	-	-
Allowance for non- recovery of accrued income	(293)	-	-	-
Amounts receivable from group undertakings	-	-	5,275	3,540
Other debtors	864	1,375	16	87
	1,957	4,513	5,291	3,627
Non-current				
Accrued income from contracts in progress	257	517	-	-

Accrued income represents unbilled fees and licence income derived from projects and contracts in progress at the end of the period.

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on sales of goods is 47 days (2012: 45). No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, the Group reserves its right to charge interest at various rates on the outstanding balance. The Group recognises, where appropriate, an allowance for doubtful debts of 100% against certain receivables over 180 days since historical experience has been that receivables that are past due beyond 180 days tend not to be recoverable.

Due to the nature of the Group's business, potential customers tend to be well-funded international companies of sound credit status. Before accepting a new customer, the Group assesses the likely credit risk of the potential customer principally by reference against the complexity and nature of the project. There are nil (2012: three) customers who each represent more than 5 per cent of the total balance of trade receivables.

Trade receivables disclosed above (see below for aged analysis) include amounts which are past due at the reporting date, but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Ageing of past due but not impaired receivables	**2013** **$'000**	**2012** **$'000**
30-60 days	-	-
60-90 days	-	18
90-120 days	-	138
Total	-	156

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

15. Trade and other payables

	Group		Company	
	2013	**2012**	**2013**	**2012**
Current	**$'000**	**$'000**	**$'000**	**$'000**
Trade creditors and accruals	1,376	1,176	37	129
Other creditors	919	313	335	-
Other taxes and social security costs	743	541	-	-
Other loans	-	313	-	-
Convertible notes at amortised cost	440	-	440	-
	3,478	2,343	812	129
Non-current				
Convertible notes at amortised cost	2,568	1,487	2,568	1,487
Embedded derivative at fair value	64	60	64	60
Other loans	1,252	-	574	-
	3,884	1,547	3,206	1,547

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 70 days (2012: 60). For most suppliers no interest is charged on the trade payables for the first 45 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables, unless they are subject to dispute, are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

Convertible notes

At 31 December 2013, there were 3,500,000 convertible notes on issue. The convertible notes can only be converted if shareholder approval for conversion is obtained by the company, which approval it will seek at the next Annual General Meeting. Each note has a nominal value of AUD$1.00 and is redeemable at the option of the Company or the holder within the first 12 months of issue if mutual consent is given, and after this time at the option of the Company.

Tranche 1 of the notes comprising 3,000,000 notes are Convertible at any time by Note holders serving a Notice on the Company (giving not less than 60 days notice) on the basis of one ordinary share for every AUD$1.75 nominal of notes held.

Any notes not converted will be redeemed on 31 December 2015 at a price of AUD$1.00 per share. The convertible notes carry an interest rate of 10% per annum, payable quarterly in arrears within five business days of 31 March, 30 June, 30 September and 31 December.

Tranche 2 of the notes comprising 500,000 notes are Convertible at any time by Note holders serving a Notice on the Company (giving not less than 60 days notice) on the basis of one ordinary share for every AUD$1.20 nominal of notes held.

Any notes not converted will be redeemed on 31 December 2014 at a price of AUD$1.00 per share. The convertible notes carry an interest rate of 10% per annum, payable quarterly in arrears within five business days of 31 March, 30 June, 30 September and 31 December.

Other loans

Information on other loans is set out in Note 23, Related Party Transactions.

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

16. Deferred Revenue

	Group	
	2013	**2012**
	$'000	**$'000**
At 1 January	497	-
Deferred during the year	292	519
Released to the income statement during the year	(210)	(22)
At 31 December	579	497
Current	235	144
Non-current	344	353

17. Called up share capital

	Company	
	2013	**2012**
	Number	**Number**
Authorised		
Ordinary shares of 0.4p each	62,500,000	62,500,000

	2013	**2012**
	$'000	**$'000**
Called up, allotted and fully paid		
31,980,784 ordinary shares of 0.4p each	205	205

There were no share issues in 2013.

During the prior year the Company undertook the following share issues:

- On incorporation, 2 ordinary shares were issued at par;
- On 19 March 2012, the Group undertook a reorganisation whereby the Company issued shares in exchange for shares issued in Etherstack London Limited on a share for share basis. A total of 1,184,325 shares of 10p were issued with a nominal value of £118,482 with the equity value of Etherstack London Limited being $7,410,000. All share options in Etherstack London Limited became share options in Etherstack plc;
- On the same day, 7,500 shares were issued as a result of the exercise of share options for a consideration of $73,000;
- On 20 March 2012, the Company undertook a share split on the basis of 25 ordinary shares of 0.4p for every 1 ordinary share of 10p share took place;
- On 10 May 2012, warrants were exercised over 3,875 ordinary shares for a consideration of £1.55;
- On 30 August 2012, further warrants over 260,350 ordinary shares were exercised for a consideration of £208.23; and

Notes to the Consolidated and Company Financial Statements

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- On 7 September 2012, the Company issued 1,920,884 ordinary shares for a consideration of $2,145,000 (net of issue costs of $1,082,000) on the Initial Public Offering on the ASX.

The Company has one class of ordinary shares which carry no right to fixed income. Each ordinary share carries the right to a vote at Shareholder meetings, rights to dividends and a right to participate in any surplus on the winding up of the Company.

18. Reserves

Details of movements in reserves are included in the Consolidated and Company Statements of changes in equity on pages 30 and 31 respectively.

Merger Reserve

A merger reserve was originally created upon the acquisition of a commonly controlled entity in 2006. The prior year movement in the Company and the Group arises from the share for share exchange as part of the Group reorganisation on 19 March 2012.

Share Premium Reserve

The share premium reserve is used to record the premium of the issue price for new issues of shares over the par value of those shares. The share premium account also records the costs directly attributable to the issue of new shares.

Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

19. Share based payments

The Group has an equity settled share option scheme for all employees of the Group. Options are issued which are exercisable at a price equal to the market price of the Company's shares at the date of the grant. The options vest upon completion of 2 years employment with the Group.

If the options remain unexercised after a period of five years from the date of grant the options expire. Options are forfeited if the employee leaves the Group before the options vest.

In addition, other options may be granted where vesting is tied to meeting or exceeding defined performance criteria. The exercise date of the options depends upon the date the performance criteria are met.

Details of the share options outstanding during the year are as follows:

	2013 Number of share options	2013 Weighted average exercise price (in £)	2012 Number of share options	2012 Weighted average exercise price (in £)
Outstanding at beginning of year	761,275	1	30,198	21
Share split on 20 March 2012 (25:1)	-	-	730,177	1
Granted during the year	-	-	570,000	1
Forfeited during the year	(69,275)	4.2	(381,600)	1
Exercised during the year	-	-	(187,500)	-
Outstanding at the end of the year	692,000	0.68	761,275	1
Exercisable at the end of the year	502,000	0.68	571,275	1

During the year, nil (2012 187,500) options were exercised.

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There were no options issued in 2013. There were 3 tranches of options granted in 2012 with an aggregate estimated fair value of $268,834:

- On 25 June 2012, two tranches of 190,000 options were issued, with the first tranche having no performance conditions attached and an expiry date of 31 December 2016. The grant of the second tranche of 190,000 is based on achievement of revenue and profit targets for the 2013 financial year.
- Additionally, on 25 June 2012, Scott Minehane, a Director of the company, was issued with 190,000 options with no conditions attached. The expiry date of these options was 25 June 2017.

The options outstanding at 31 December 2013 had a weighted average exercise price of £0.68 (2012: £1), and a weighted average remaining contractual life of 3 years (2012: 4).

The inputs into the Black-Scholes option pricing model are as follows:

	2013	**2012**
Weighted average share price	N/A	1USD
Weighted average exercise price	N/A	1USD
Expected volatility	N/A	50%
Expected life	N/A	3 years
Risk-free rate	N/A	2.5%
Expected dividend yields	N/A	8%

Expected volatility was determined by calculating the historical volatility of the Group's share price. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

The Group recognized total expenses of $71,000 and $240,111 relating to equity-settled share-based payment transactions in 2013 and 2012, respectively.

20. (Loss)/earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (before deducting interest on the convertible shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2013		2012 Restated	
Reconciliation of earnings used in the calculation of earnings per share	**Basic** $'000	**Diluted** $'000	**Basic** $'000	**Diluted** $'000
Net (loss)/profit attributable to equity holders of the parent for basic earnings	(4,581)	(4,581)	(1,074)	(1,074)
Net (loss)/profit attributable to equity holders of the parent adjusted for the effect of dilution	(4,581)	(4,581)	(1,074)	(1,074)
	'000	'000	'000	'000
Weighted average number of ordinary shares for basic earnings per share	31,981	31,981	30,491	30,491
Options*	-	-	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	**31,981**	**31,981**	**30,491**	**30,491**
(Loss)/earnings per share (cents)	**(14.1)**	**(14.1)**	**(3.5)**	**(3.5)**

* options have been excluded from the calculation of diluted earnings per share because they are anti-dilutive for 2013 and 2012.

There are no ordinary share transactions or potential ordinary share transactions occurring after the reporting period but before the financial statements are authorized for issue that would significantly change the ordinary shares or potential ordinary shares outstanding if those transactions had occurred before the end of the reporting period.

21. Financial instruments

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders. The Group has funded itself through share issues, convertible note issues and cash generation from the business. The capital structure of the Group consists of equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained profits as disclosed in notes 17 and 18 and the Statement of Changes in Equity.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Fair Value Hierarchy

There is one financial liability measured at fair value. This represents the fair value of the embedded derivative contained in the Convertible Notes. This financial liability is $64,000 (2012 $60,000) and the valuation is categorised as Level 2 – Valuation technique, (market observable).

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Categories of financial instruments

	Group: Carrying value		Company: Carrying value	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Loans and receivables measured at amortised cost				
Cash and cash equivalents	29	272	-	-
Trade and other receivables (Net of allowances)	528	1,223	5,291	3,627
	557	1,495	5,291	3,627
Financial liabilities				
Convertible Note at amortised cost	3,008	1,487	3,008	1,487
Embedded derivative at fair value	64	60	64	60
Non-current borrowings at amortised cost	1,252	1,802	574	-
	4,324	3,349	3,646	1,547

The table below summarises the maturity profile of the Group's and the Company's financial liabilities based on undiscounted payments:

Group: Year ended 31 December 2013	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade creditors	-	1,376	-	-	-	1,376
Related party loans	-	-	-	1,252	-	1,252
Other creditors	-	228	691	-	-	919
Convertible Notes	-	78	236	3,008	-	3,322
	-	1,682	927	4,260	-	6,869

Group: Year ended 31 December 2012	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**>5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade creditors	195	981	-	-	-	1,176
Related party loans	-	-	338	-	-	338
Other creditors	217	2	90	4	-	313
Convertible Notes	-	39	116	1,857	-	2,012
	412	1,022	544	1,861	-	3,839

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Company: Year ended 31 December 2013	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Trade creditors	-	374	-	-	-	374
Related party loans	-	-	-	574	-	574
Convertible Notes	-	78	236	3,008	-	3,322
	-	452	236	3,582	-	4,270

Company: Year ended 31 December 2012	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Trade creditors	-	129	-	-	-	129
Related party loans	-	-	-	574	-	574
Convertible Notes	-	39	116	1,857	-	2,012
	-	168	116	2,431	-	2,715

Group and Company Financial risk management objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk evaluations which analyse exposure by degree and magnitude of risks. These risks include market risk, including currency risk, credit risk and liquidity risk.

The Group may use derivative financial instruments to hedge these risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

A sensitivity analysis has been prepared for foreign currency exchange rates in the foreign currency risk section.

Credit risk management

Credit risk refers to the risk a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure is continuously monitored.

Trade receivables consist of a number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking (cash) facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Foreign currency risk

The Group operates in the United Kingdom, continental Europe, North America, Australia, Japan and Singapore, and has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The Group and Company also has trade and other receivables and trade and other payables that are denominated in foreign currencies; and also hold cash and cash equivalents denominated in foreign currencies for working capital purposes.

The Group closely monitors foreign currency risk and enters into hedging transactions when deemed necessary. The Group's and Company's currency exposure is as follows:

Foreign currency sensitivity
The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and Pound sterling, Australian dollar and Japanese Yen exchange rates, with all other variables held constant for the Group and sensitivity to a reasonably possible change in the Australian dollar with all other variables held constant for the Company. The impact on the Group's and the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives. The Group's and Company's exposure to foreign currency changes for all other currencies is not considered material.

		Group		Company	
	Change in GBP rate	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**		
2013	+10%	(329)	500		
	-10%	329	(500)		
2012	+10%	(477)	904		
	-10%	477	(904)		

	Change in AUD rate	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**
2013	+10%	(323)	(195)	(320)	(320)
	-10%	323	195	320	320
2012	+10%	(134)	(143)	(147)	(147)
	-10%	134	143	147	147

	Change in JPY rate	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**
2013	+10%	8	42
	-10%	(8)	(42)
2012	+10%	(177)	44
	-10%	177	(44)

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

22. Operating lease commitments

	2013 Land and buildings $'000	2012 Land and buildings $'000
Minimum lease payments under operating leases		
Recognised as an expense in the year	668	691

At 31 December 2013 the Group had total commitments under non-cancellable operating leases as set out below:

	2013 Land and buildings $'000	2012 Land and buildings $'000
Operating lease payments		
Within 1 year	625	673
In the second to fifth years inclusive	909	1,040
After five years	25	26
	1,559	1,739

23. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in these financial statements.

Remuneration of key management personnel

The remuneration of the directors, plus the Chief Operating Officer and Chief Financial Officer, who are the key management personnel of the Group and the Company, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2013 $'000	2012 $'000
Short-term employee benefits	900	818
Share based payments charge	-	218
Post-employment benefits	55	55
	955	1,091

Loans to/ from related parties

The Group and Company has provided its subsidiaries with short-term loans at nil interest rates. The Company provided loans to its subsidiaries and, at balance date, an amount of $5,275,000 (2012 $3,540,000) was receivable (refer Note 14).

From time to time, operating expenses of Etherstack plc are settled by Group companies and the cost passed back to Etherstack plc. During the year $749,000 (2012 $276,000) of operating expenses were paid for by Group companies.

Notes to the Consolidated and Company Financial Statements

At 31 December 2013

Directors and Director related entities

Mr. David Deacon, a director of the Company, is owed $666,456 by the Group at 31 December 2013 (31 December 2012: $313,224). During the year, advances of $488,496 were made to the company, interest of $65,218 was accrued and repayments of $47,132 were made. This loan is unsecured, bears interest at arms-length rates and is not due for repayment before 30 June 2015. At its option, the Company may make repayments before 30 June 2015.

In addition, an entity related to Mr. Deacon had advanced $531,000 to the Group in the year. Interest of $8,087 was accrued on this loan and $539,087 was outstanding at year end nil (2012: $nil). This loan is unsecured, bears interest at arm's length rates and is repayable in November 2015.

At 31 December 2013, the following amounts were payable to Directors of the company: David Deacon $94,290 (2012: $nil), Peter Stephens $35,317 (2012: $nil), Paul Barnes $39,398 (2012: $nil) and Scott Minehane $26,610 (2012: $nil). These are unsecured, interests free and not subject to specific repayment terms.

Other Related Parties

Brixlam Trading Limited ("Brixlam") is a related party as a consequence of common shareholders. In 2012, the agreement with Brixlam was terminated by mutual agreement as the circumstances for which the agreement was entered into no longer existed. As a consequence of the termination, Brixlam has waived its right to collect future royalties from Etherstack and Etherstack has received IP rights. The Directors consider the termination to be at arm's length terms and conditions.

Under the terms of an Executive service agreement between the Group and Paul Barnes, a director and shareholder in Etherstack plc, fees totalling $nil (2012: $76,105) were payable during the year to QFDJG Ltd, a company of which Paul Barnes is a Director and shareholder. At 31 December 2013 the Group owed QFDJG Ltd $nil (2012: $969).

Beach Street Limited is a director related entity as Paul Barnes is a director and shareholder. In the year Beach Street Limited charged the group USD $9,892 for professional services (2012 $Nil). These services were charged at arm's length rates. At year end USD $9,892 was owing to Beach Street Limited (2012 $Nil).

24. Contingent liabilities

A general commercial dispute has arisen between Etherstack plc's wholly owned US subsidiary Etherstack Inc. and one of its technology licensees, Datron World Communications Inc, "Datron". This has resulted in legal action being initiated between Datron and Etherstack Inc.

Etherstack Inc has made adjustments to amounts receivable of USD $206,000 from the customer and accrued income on the project of USD $293,000.

The dispute will be mediated in 2014 and the outcomes of the mediation process cannot be predicted or estimated at this time. Resolution of the dispute through mediation or other means may result in an additional amount becoming payable to Datron or a portion of the amounts receivable and accrued income at 31 December 2013 becoming recoverable by Etherstack Inc.

25. Ultimate controlling party

The Ultimate Controlling party is Mr David Deacon. The Group has no immediate parent company.

ASX Additional information

Shareholdings

The issued capital of the Company as at 18 March 2014 is 31,980,784 fully paid ordinary shares.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

Ordinary Shares

Range	Total Holders	Number of shares	% of Issued capital
1 - 1,000	7	3,994	0.01
1,001 – 10,000	361	589,884	1.84
10,001 – 100,000	42	1,461,968	4.57
100,001 – 1,000,000	21	5,840,894	18.26
1,000,001 and over	5	24,084,044	75.31
Total	**436**	**31,980,784**	**100.0**

As at 18 March 2014 there were 310 shareholders (with a total of 382,814 shares) holding less than a marketable parcel under the ASX Listing Rules. The ASX Listing Rules define a marketable parcel of shares as “a parcel of not less that AU$500”.

Options

Range	Total Holders	Options	%
1 - 1,000	0	0	0
1,001 – 10,000	1	5,750	0.52
10,001 – 100,000	3	154,250	13.96
100,001 – 1,000,000	4	945,000	85.52
1,000,001 and over	0	0	0
Total	**8**	**1,105,000**	**100.0**

Substantial shareholders as at 18 March 2014

As at 18 March 2014 there were three shareholders who held a substantial shareholding within the meaning of the Corporations Act. A person has a substantial holding if the total votes that they or their associates have relevant interests in is five per cent of more of the total number of votes.

	No of shares	% of issued capital
Mr David Deacon	18,241,850	57.04
Giga Palace Limited	1,909,994	5.97
Mr Paul Barnes	1,712,500	5.35
	21,864,344	68.36

ASX Additional information

Top 20 shareholders as at 18 March 2014

		No of shares	% of issued capital
1	Mr David Deacon	18,241,850	57.04%
2	Giga Palace Limited	1,909,994	5.97%
3	Mr Paul Barnes	1,712,500	5.35%
4	Mr Jeremy Davies	1,159,000	3.62%
5	In-Q-Tel Inc	1,060,700	3.32%
6	Rt Hon James Netherthorpe	787,500	2.46%
7	Mr Adam Richards	563,500	1.76%
8	Mr Evan Scott	562,500	1.76%
9	Mr Peter Squires <P&MSFT A/C>	561,250	1.75%
10	Citicorp Nominees Pty Limited	511,250	1.60%
11	R & K Investments Pty Limited	389,310	1.22%
12	In-Q-Tel Employee Fund LLC	264,775	0.83%
13	Mr Bill Eason	262,500	0.82%
14	Mr Geoffrey Robert Garrott + Mrs Margaret Garrott <Derwentwater Super Fund A/C>	217,500	0.68%
15	Mr Paul Richards	183,750	0.57%
16	J P Morgan Nominees Australia Limited	175,000	0.55%
17	Mr Andrew Scott	175,000	0.55%
18	Mr Peter Stephens	165,000	0.52%
19	HSBC Custody Nominees (Australia) Limited	148,284	0.46%
20	Muzbird Pty Ltd <Bird Super Fund A/C>	140,994	0.44%
	TOTAL	**29,192,157**	**91.28**

ASX Additional information

Top Option Holders as at 18 March 2014

Existing unlisted Options

		No of options	% of issued options
1	Mr Brad Dolphin	380,000	34.39%
2	Mr Kevin Swann	250,000	22.62%
3	Mr Scott Minehane	190,000	17.19%
4	Mr Peter Stephens	125,000	11.31%
5	Mr Doug Chapman	64,625	5.85%
6	Mr Adam Richards	64,625	5.85%
7	Mr Paul Bouchier-Hayes	25,000	2.26%
8	Ms Tanya Murphy	5,750	0.52%
	TOTAL	**1,105,000**	**100.0%**

Unquoted securities (Convertible Notes)

Range	**Total Holders**	**Options**	**%**
1 - 1,000	-	-	-
1,001 – 10,000	-	-	-
10,001 – 100,000	1	76,317	2.10
100,001 – 1,000,000	9	3,423,683	97.90
1,000,001 and over	-	-	-
Total	10	3,500,000	100.0

Unquoted equity security shareholdings greater than 20%

	Holding
Zheng Xing He	750,000

ASX Additional information

Limitations on the Acquisition of Securities

Etherstack plc is subject to the City Code on Takeovers and Mergers (the Code) as a public company incorporated in England and Wales.

Subject to certain exceptions and limitations, a mandatory offer may be required to be made under Rule 9 of the Code broadly where:

(i) a bidder and any persons acting in concert with it acquire shares carrying 30% or more of the voting rights of a target company; or

(ii) if a bidder, together with any concert parties, increases its holding where its holding is not less than 30% but not more than 50% of the voting rights.

Rule 9 requires a mandatory offer to be made in cash and at the highest price paid by the bidder (or any persons acting in concert with it) for any interest in shares of the relevant class during the 12 months prior to the announcement of the offer.

Where a bidder, within 4 months of making its offer, obtains acceptances of at least 90% of the shares subject to the takeover offer (which excludes any shares held by it or its concert parties), it can require the remaining shareholders who have not accepted the offer to sell their shares on the terms of the offer. The Corporations Act governs a takeover, and contains a general rule that a person must not acquire a 'relevant interest' in issued voting shares of a company, if because of the transaction, a person's voting power in the company increases from 20% or below to more than 20%, or increases from a starting point which is above 20% but less than 90%.

Certain exceptions apply, such as acquisitions of relevant interests in voting shares made under takeover bids or made with shareholder approval, or creeping acquisitions of not more than 3% in a 6 month period.

Australian law similarly permits compulsory acquisition by persons holding a 90% interest in the relevant securities.

Etherstack plc is not subject to the provisions of the Corporations Act relating to changes in control and takeover of public companies.